EFE Research – African Distillers Full Year Results 2014 Review

Highlights:

- Group Volumes up 10%
- Sales turnover up 18%
- Operating Income up 80%
- Attributable Earnings up 157%
- Earnings Per Share up 136%
- Final dividend per share 0.45c

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STATISTICS				AFDIS
Price:				32.50c
52 Wk High:				35.09c
52 Wk Low:				0.00c
20 Day VWAP:				32.80
P/E:				16.67
D/Y:				-
PBV:				2.40
EV/EBITDA:				29.93
Issued Shares:				113.07
Market Cap:				36.75

	FY JUNE 2012 $	FY JUNE 2013 $	FY JUNE 2014 $	2015 F $
Revenue	19,548	22,091	23,952	25,150
Operating profit	1,163	1,661	2,997	3,400
PBT	1,666	1,213	1,810	3,202
PAT	1,144	809	2,078	2,401
AE	1,144	809	1,316	2,329
Total Assets	11,649	13,930	19,501	21,903
NAV	5,051	5,953	13,064	15,465
Total Liabilities	6,598	7,977	6,437	6,437

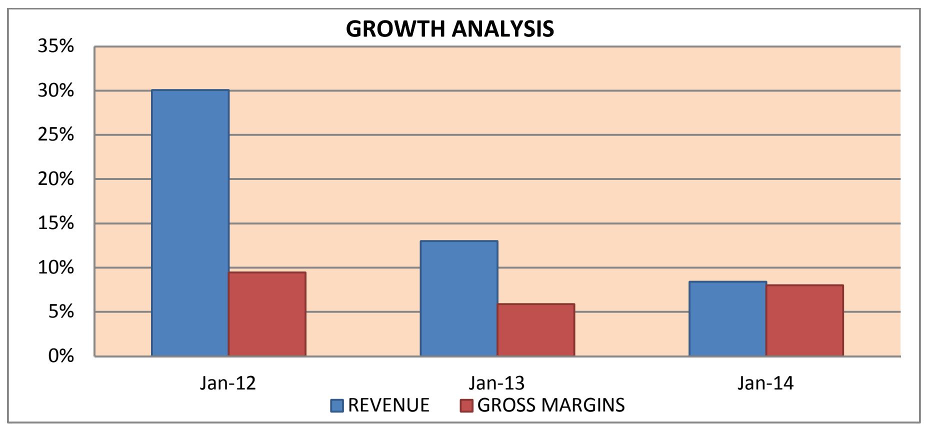
	FY JUNE 2012	FY JUNE 2013	FY JUNE 2014	F JUNE 2015
BASIC EPS	1.20	0.85	2.01	2.16
Current ratio	1.21	1.23	2.34	2.64
NAVPS	5.32	6.27	12.68	13.89
Debt/Equity	28.35	48.42	37.00	36.68
Middle Market Price	11.00	33.00	30.00	45.00
PBV	2.07	5.26	2.37	3.24
P/E	1.72	6.19	1.18	1.50
Target Price				45

Results for the full year to June 2014

A sustained volumes growth underpinned Afdis' stable but stellar performance in the year under review. Aggregated group volumes went up by 10% to 6.1m litres which in turn drove turnover up by 18% to $35m over the comparable period. Revenue grew at a rate of 8% to $23.9m to achieve a gross profit of $11.3m implying gross profit margins of 47% which compared favorably to prior year margins of 44%. Operating income went up by 80% to $2.99m on the back of firmer operating margins of 13% up 5 basis points on the previous year. PBT and PAT came in at $2.8m and $2.08m highlighting respective growths of 131% and 157% respectively. An EPS of 2.01c accrued from the attributable income which was 136% higher than last year. The group's balance sheet stood at $19.5m with $13.1m of these being the owners' portion.

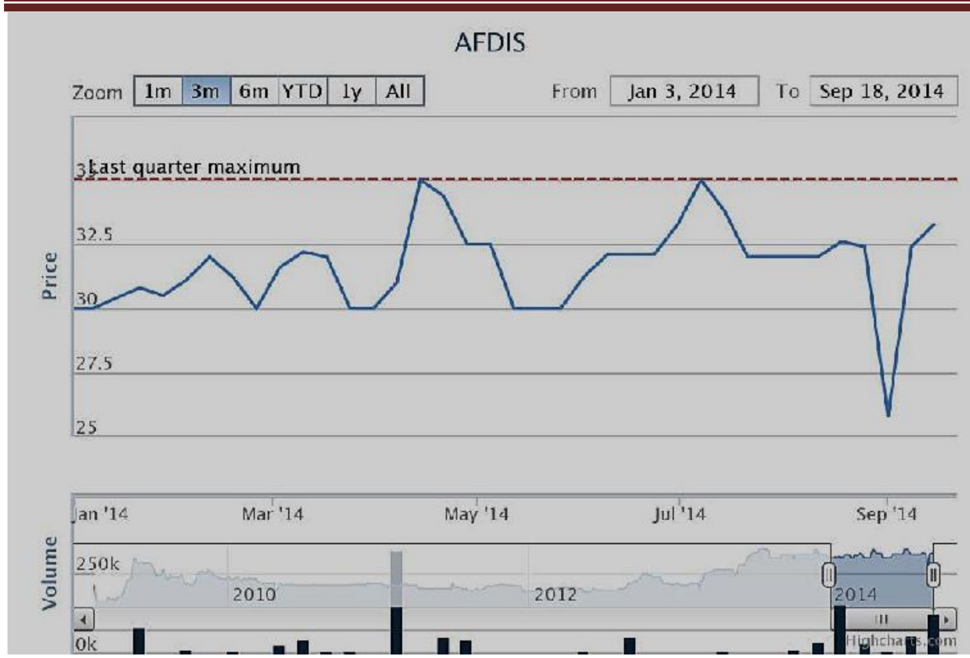
…volume growth anchors performance

Aggregate volumes growth anchored revenue surge in the period under review inspired by the local product portfolio which contributed 71% relative to 58% contribution to the comparable period numbers. Growth in volumes was achieved on the back of firm demand in brown spirits in the second half of the year. Due to a favorable product mix which has been deliberately skewed towards higher margin local products. The company managed to achieve a growth of 8% in GP margins which improved to 47% from 44% in the prior year



…duties dampen import portfolio as ready to drink plant is set to start

Import duty increase experienced during the past year resulted in the import portfolio losing both margins and volumes hence the evolution towards high margin local produce. In the year the company is set to commence production of ready to drink products in the form of ciders in the present quarter. This is after a recapitalization initiative earlier in January 2014 whose proceeds were



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channeled towards plant purchase for the localization of ciders production. Going forward the company says it will continue focusing on volume and revenue growth whilst containing costs and improving efficiencies as well as improve its brand portfolio and invest in upgrading plant and equipment so as to underpin the growth platform.

Comment

Against a challenging economic background Afdis has however consistently provided a favorable return for its shareholders through product portfolio expansion as well as product mix rejiggering. Since retooling, the company has been able to shift from an import reliant business model to creating a balance between the two while eventually skewing it towards the domestic front as envisaged by the 22% growth to 71% in the local portfolio contribution to turnover. This has ignited firmer gross margins as local produce does not attract excise duty.

The group's envisaged product portfolio expansion expedited through introduction of own ready to drink beverages on the market after a successful recapitalization earlier this year sets a platform for future growth. This is only but a harbinger for better things ahead more-so with the better margins on the local brands.

Valuation

In valuing Afdis we assumed a 5% growth in the topline which is a slightly slower growth than the recent years owing to the improved base as well as the slowing demand in the economy; this should see the spirits producer achieve revenues of $25.2m. Leveraging on emerging favorable gross margins with the shift of the portfolio skew towards local produce we forecast 50% gross margins. The company exhibited ability to stably grow margins in the past 3 years which augurs well with global benchmarks for spirit makers averaging 55% for GP margins. This therefore places a gross profit forecast of $12.6m and from these we expect the company to achieve attributable earnings of $2.3m. Based on the average P/E multiple for African brewers of 32x discounted 34% to 21% for the constraints on the demand side in the local economy we value the company Afdis at $48.3m. EFE Target Price is 45c. **BUY**

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